

Message Text

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ACTION SS-25

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FM AMEMBASSY CAIRO

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C O N F I D E N T I A L CAIRO 5912

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E.O. 1165/ GDS

TAGS: EAIR EG

SUBJECT: REVISED GOE STATEMENT RE EGYPT'S FINANCIAL
ASSISTANCE REQUIREMENTS

REF: STATE 133630; CIAOR 5796

1. MINFINANCE ABU ISMAIL TELEPHONED THIS MORNING TO SAY
A. GOE AGREES TO A STATEMENT OF THE TYPE WE PROPOSED AND
B. HE HAD AMENDED AND IN PLACES REDRAFTED OUR DRAFT TO
REFLECT THE TRUE GOE POSITION. HE WOULD SIGN THE STATEMENT
AND SEND IT TO ME IMMEDIATELY FOR UNDER SECRETARY ROBINSON'S
USE. TEXT FOLLOWS: ANALYSIS OF CHANGES BEING SENT
IN SEPTEL IMMEDIATELY FOLLOWING

2. QUOTE. PROPOSED DRAFT LETTER BY GOVERNMENT
OF EGYPT. EGYPT IS EXPERIENCING A SEVERE BALANCE OF PAYMENTS
PROBLEM RESULTING FORM (1) DEPRESSED MARKET AND PRICES
FOR COTTON AND RISING PRICES OF INDUSTRIAL GOODS IMPORTS;
(2) NECESSARY INCREASES IN IMPORTS OF INDUSTRIAL RAW
MATERIALS AND OTHER PRODUCTION GOODS AND EQUIPMENT REQUIRED
TO RAISE INDUSTRIAL PRODUCTIVITY; (3) NECESSARY
INCREASES IN IMPORTS OF CONSUMER GOODS REQUIRED TO
OFFSET CROP FAILURES AND EXPAND RATIONS; AND (4) HEAVY
CARRYING CHARGES ON FOREIGN COMMERICAL BANK CREDITS
AND THE NECESSITY OF MAKING NET REPAYMENTS THIS YEAR ON
SUCH CREDITS.

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3. THE BALANCE OF PAYMENTS DEFICIT CANNOT BE SUBSTANT-

ially offset by drawing down foreign exchange reserves, as Egypt's reserves already have declined to a minimum level required for national security. The option of cutting back sharply on imports of intermediate goods is unacceptable as this would weaken industrial recovery and prolong dependence on imports of consumer goods.

4. Egypt's foreign exchange budget, based on funding required to open letters of credit and to service debt, projects a deficit on international trade and service accounts in 1975 of about 1,400 million Egyptian pounds (LE 1,400 million).

5. This is higher than the deficit calculated on the conventional central bank payments basis, but it is the more accurate measure of the foreign exchange required to open letters of credit in an expanding import program. In addition, debt service due on long and medium term debt (including LE 192 million in net payments on bilateral agreement accounts) amount to about LE 400 million in 1975. The total deficit of approximately LE 1,800 million is assumed to be financed to the extent of about LE 1500 million by foreign assistance grants and loans and medium and long term supplier credits (of which more than LE 100 million in assumed additional grants had not actually been committed as of June 1, 1975). Thus, the net deficit is about LE 300 million, equivalent to about US dollars 750 million.

6. In accordance with the above the Govt. intends to negotiate with foreign official creditors to reschedule debt service outstanding, and payable on civil loans over the next twelve months.

7. The new cabinet has undertaken extensive reviews of the immediate and longer term financial outlook and of both policy and administrative measures required to reduce Egypt's dependence upon foreign financing of current imports.

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8. Measures to improve the management and allocation of foreign exchange are currently under consideration in conjunction with the preparation of the annual economic plan as well as the government budget for 1976.

9. In this connection exchange of views has taken place between appropriate ministries and experts of IMF and IBRD. Once the immediate balance

OF PAYMENTS DEFICIT HAS BEEN CLOSED BY THE MEASURES INDICATED ABOVE AND BY THE RECEIPT OF ADDITIONAL OFFICIAL FINANCIAL ASSISTANCE, THERE ARE GOOD PROSPECTS OF OBTAINING REFINANCING ON MEDIUM TERM OF MUCH OF THE ACCUMULATED SHORT TERM COMMERCIAL DEBT. THE MEDIUM AND LONGER TERM OUTLOOK FOR THE ECONOMY IS MORE FAVORABLE, WITH PROSPECTS OF SUBSTANTIAL EXPANSION OF DOMESTIC PRODUCTION OF PETROLEUM, INDUSTRIAL AND AGRICULTURAL GOODS, RECOVERY OF EXTERNAL DEMAND FOR EGYPTIAN COTTON AND OTHER EXPORTS, AND INCREASED FOREIGN EXCHANGE EARNINGS FROM THE REOPENED SUEZ CANAL AND TOURISM. CONSEQUENTLY, IT CAN BE REASONABLY EXPECTED THAT RISING PROPORTIONS OF FOREIGN CAPITAL FLOWS TO EGYPT, IN 1976 AND THEREAFTER, CAN BE INVESTED IN NEW PRODUCTIVE CAPACITY AND SUPPORTING INFRASTRUCTURE.

10. IN ORDER TO CLOSE THE GAP IN AVAILABLE FINANCING OF ESSENTIAL CURRENT IMPORTS DURING THE REMAINDER OF 1975, THE GOVERNMENT OF EGYPT IS ASKING INTERESTED FOREIGN GOVERNMENTS AND INTERNATIONAL AGENCIES FOR ADDITIONAL FINANCIAL ASSISTANCE IN FORMS APPROPRIATE TO THIS NEED AND ON TERMS APPROPRIATE TO EGYPT'S DIFFICULT ECONOMIC SITUATION. AS EXPLAINED ABOVE, APPROXIMATELY LE 1.4 BILLION EQUIVALENT TO US \$3.5 BILLION WILL BE NEEDED OVER THE NEXT SIX MONTHS, AND A SUBSTANTIAL PART OF THIS AMOUNT IS NEEDED IMMEDIATELY SO AS TO PREVENT WASTEFUL INTERRUPTION OF IMPORT PROCUREMENT PROGRAMS AND FURTHER DAMAGE TO EGYPT'S INTERNATIONAL CREDIT.

11. NO PART OF THE REQUESTED ASSISTANCE SHALL BE USED TO REPAY FOREIGN OFFICIAL DEBTS OR DEBT SERVICE THEREON.

12. THE GOVERNMENT OF THE UNITED STATES PROMPTLY
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RESPONDED TO THIS REQUEST, CONDITIONALLY OFFERING TO PROVIDE DURING THE SEVEN REMAINING MONTHS OF 1975 \$250 MILLION FOR IMPORT FINANCING, IN ADDITION TO THE \$150 MILLION IN US NON-PROJECT LOANS AND \$100 MILLION IN US PROJECT AID PROVIDED OR TO BE PROVIDED DURING 1975. POSITIVE RESPONSES HAVE BEEN RECEIVED FROM THE GOVERNMENT OF SAUDI ARABIA AND IRAN, AND DISCUSSIONS HAVE BEEN INITIATED WITH OTHER GOVERNMENTS. RECOGNIZING THE DIFFICULTY SOME GOVERNMENTS MAY HAVE IN RESPONDING IMMEDIATELY TO THIS URGENT REQUEST, THE GOVERNMENT OF EGYPT IS AGREEABLE TO THEIR REALLOCATION TO CURRENT IMPORT FINANCING OF SOME ASSISTANCE FUNDS WHICH THEY PREVIOUSLY OFFERED FOR EGYPTIAN DEVELOPMENT PROJECTS BUT HAVE NOT YET FIRMLY COMMITTED TO PARTICULAR PROJECTS.
A.A. ISMAIL, MINISTER OF FINANCE. END QUOTE.

13. ABU ISMAIL INDICATED THAT, WHILE THE STATEMENT SHOULD REMAIN CLASSIFIED, HE HAS NO OBJECTION TO OUR USING IT WITH PROSPECTIVE DONORS. GOE WILL, AS NECESSARY, ALSO DO SO.

14. SUGGEST DEPT PASS REVISED EGYPTIAN DRAFT TO UNDER SECRETARY ROBINSON WHEREVER HE IS AT THE MOMENT.
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